

THE MYTH OF THE PARASITIC MIDDLEMAN

"Productive" and "Unproductive" Labor

ABBA P. LERNER

PARASITE, leech, vampire, symbol of unproductiveness and irresponsibility—these are familiar terms for that classic modern villain: the middleman. How often have we heard him thrust into the social darkness in company with the whole rogues' gallery of liberalism's enemies! Yet his case deserves review and reappraisal. He should be judged before being condemned.

The charge is well known: the middleman is nothing but a go-between. He is a trader who does not produce anything. He buys goods from the producer and sells them to the consumer at a profit; he is therefore an excrescence on the body economic, the profiteer, the "exploiter" *par excellence*.

The charge rests on a distinction between the "productiveness" of work and the "unproductiveness" of trade. But on what is this distinction based—apart from confused thinking?

Consider, for example, the question of

AT LEAST since the 18th century, social discontent has tended to focus on the figure of The Middleman, who is conceived to be a kind of parasite earning his living in some obscure way at the expense of the "productive" elements of society. This conception of the parasitic role of the trader has played an important part in political movements of the Left and the Right, both on a popular and on a high ideological level, and has often been used as a basis for anti-Semitism, because of the special economic position of the Jews. ABBA P. LERNER, one of America's leading economists, here subjects this doctrine to a careful analysis. Dr. Lerner is a member of the faculty of Roosevelt College, and is a founder and one of the editors of the *Review of Economic Studies*. He was born in Bessarabia in 1903, and earned his doctorate at the London School of Economics. His book *The Economics of Control* is a standard work in the field.

the so-called "gray market," which was recently blamed for encouraging inflation. A moment's thought will serve to make one realize that the "gray marketeers" performed a useful social function; they broke through monopolistic practices and supplied vital materials like steel, sorely needed to keep vital productive processes going, which could not be obtained by any other means. Is it not perhaps because we are uneasily aware of this that we changed the color from black to gray?

Yet even the middlemen themselves plead guilty: often they are the first to deprecate their own social usefulness, to admit that they are parasites who not merely fail to do their fair share of work but are actually engaged in socially harmful activities.

In many cases, especially where Jews are prominently engaged in such trade, the attack on the middleman is nothing but a disguised form of anti-Semitism. All the more is it to be deplored, then, that Jews themselves tend to accept such ideas, as is shown, for instance, in the special pride Zionists take in Jewish manual laborers and Jewish farmers, and in the parroting in Zionist ideology of the condemnation of the trader's role as parasitic.

This apologetic attitude is quite uncalled for. Viewed from a fundamental standpoint, the work of the middleman or trader has more than ordinary usefulness: it consists in facilitating a socially desirable movement of things from one place to another. The trader buys something in one place for less than he can sell it for in another. That the commodity is dearer in the second place simply indicates that it is needed there more. The middleman, therefore, moves things from where they are needed less to where they are needed more.

One may object that there is no absolute certainty that the higher price really indicates any such thing; it may merely show that the buyers in the place to which the goods are moved have more money to spend. Thus the middleman might actually be taking goods away from poor people, who have a greater need for these goods, and selling them to rich people, who need them less. But the opposite is equally possible; the middleman may be taking goods from rich people and bringing them to poor people. (After all, more goods are sold to poor people than to rich people—there are so many more poor people.) In that case he is not only moving goods to where they are appreciated more—the basic benefit that results when goods are shifted between equally rich or equally poor consumers—but he is also moving goods from those who can spare them more easily to those who are in greater need of them.

Indeed, any general examination of the middleman's activities must begin by disregarding his shuttlings between rich and poor. Inequality of wealth and income is a separate problem, for which the middleman has no special responsibility. Properly understood, such inequality is merely a complicating factor in the middleman's activities, sometimes swelling and sometimes diminishing the social value of these activities. When he moves goods from poor to rich, the benefit is cut down; when the movement is in the other direction, the benefit is of course increased. Yet these variations cancel out on the whole, leaving the basic benefit of goods being shifted from where consumers are willing to pay less to places where they are willing to pay more; and this still means that, given the existing distribution of income and wealth, they are being moved from where they are wanted less to where they are wanted more.

Now it is common for people to understand and accept the foregoing analysis and then, nevertheless, repeat the old accusation: the middleman does not "produce" anything. He "merely" moves things from one place to another.

Those who persist in making this statement have overlooked something both obvious and startling. For what we have defined as the peculiarity of the middleman—that his activity consists in moving things from one place to another—is actually true of all economic activity. All the "real" or "direct" production with which the middleman's activity is unfavorably contrasted boils down to exactly the same thing.

Workers cannot create material things; they can only manipulate materials that already exist. A worker moves coal from the face of the mine to the truck which takes it away; he moves it on the truck from the mine face to the mine shaft, from below ground to above ground, from the coal-producing area to the homes and factories where it is needed. The farmer moves small pieces of earth with spade or plow; he moves fertilizer to where it is needed; he moves seeds from his bins to his fields; and, finally, he moves the ripe crops from the field to the barn. The automobile worker moves one piece of metal to join it on to another piece and moves the screws so that they hold tight. The textile worker draws cotton or wool into threads, or arranges the threads so that they are entangled with each other to form cloth or joined with other pieces of thread to form suits and dresses and shirts.

Thus, since all work can be reduced to "shifting dirt from one place to another," there can be no *physical* way of distinguishing between productive and unproductive occupations. Only one significant test exists: whether the results are *useful*—how much they contribute to the needs and desires of human beings.

THE popular distinction between the middleman and the workers is part of a long series of attempts to distinguish "productive" from "unproductive" occupations. Two centuries ago, the Physiocrats in France, the grandfathers of modern economics, asserted that only the land and the people working on it were truly productive. Agriculture, they said, produces crops, while manufacture is not truly productive because it merely

changes the form of what the land yields.

For Adam Smith, the father of modern economic theory, artisans as well as farmers were productive, provided that they produced a palpable physical commodity. Builders, tailors, engineers were productive workers because when they completed their work they had a house or a suit of clothes or a bridge to testify to their productiveness. On the other hand, a musician, a lawyer, a singer, or a professor would be classed as "unproductive," since he could not point to any "solid" product of his labor.

IN MORE recent times, most Marxists have insisted that only labor is productive and that capital goods and land, although they are as essential to production as labor, are not. And according to some Marxists, even more than normally careless, only the unskilled labor of a kind of "pure proletariat" is *really* productive all the way through; the more skilled workers are tainted with an element of exploitativeness, especially if they are managers of production.

The original distinction between "productive" and "unproductive" labor was not drawn in order to praise the one and denigrate the other. The Physiocrats stressed the productiveness of the soil because they wanted to concentrate taxation on the land owners and to take it out of rent. Their basic principle was a sound one: namely, that taxes should be imposed on those elements of income which are a "surplus" in a rather special sense, and they isolated a sector of unearned income that was especially suitable for such taxation. And Adam Smith, too, made it very clear that the labor he called "unproductive" could be of the utmost importance to society. His distinction was made only to demarcate those activities which could result in additions to the accumulated *wealth* of nations. Such additions are possible only from activity that results in a *durable* physical product. The man who provides a service that must be consumed immediately may be doing something much more useful and important than one who turns out a physical product. His activity

may raise the standard of living or provide the basic security without which life would be impossible. (The services of a physician would be a case in point.) But since he does not *directly* produce any tangible addition to society's wealth, Adam Smith singles out his work as "unproductive."

The Marxists, however, do use the distinction between "productive" and "unproductive" activity as a basis for praise or blame. They have to admit that the output of useful goods and services is increased by the use of land and capital and by the skill of entrepreneurs and managers of production, but the admission is offered reluctantly and phrased in a peculiar language that seems to withdraw the admission. These other factors, they say rather vaguely and lamely, only "make it possible for labor to produce more." Yet as a description of what actually happens, there is not the slightest difference between saying that land and capital contribute to the final product and saying that land and capital help labor to be more productive. If more capital or more land is used with a given amount of labor, there will be a greater product, just as certainly as when more labor is applied to a given supply of capital and land.

The Marxists insisted with such violence on labor's being the only "productive" force because they wished to harness the workers' sense of property rights to the revolution: if the workers were the only "real" producers, then the product was by right completely theirs; if landlords and capitalists got anything at all out of the productive and distributive process, then they must in some hidden way be stealing it from its rightful owners. Many Marxists have been moved by this picture of capitalist pilfering to heights of proprietary passion that never could have come from a mere consideration of the desirability of social change. But however effective it may be for the purpose of kindling revolutionary fervor to emphasize the "productiveness" of wage-labor, the distinction simply does not hold in any scientific analysis of how the economy actually works.

Sometimes the worker and the middleman

are differentiated on the ground that one works for wages and the other for profit. Wages are then regarded as honorific, whereas profit is given a dishonorable connotation associated with the idea that it involves the exploitation of others. Part of the disesteem for profits comes from the ethical conception of a special selfishness in seeking profits—production should be “for use and not for profit.” But why it is more selfish to work for profits than for wages is impossible to say. In both cases, personal gain is the incentive, and in neither is the motive pure patriotism or love of one’s neighbors. Morally they are exactly on a par, and we are always driven back to the ultimate criterion of social usefulness.

The refusal to recognize the proper place of land and capital in economic accounting was one of the reasons for the terrible fall of productivity in Russia in the first few years after the 1917 revolution. The restoration of a limited free market under the New Economic Policy in 1921 resulted in a rapid improvement until 1928—the best consumers’ year since the Revolution. After 1928 the market was outlawed, and the state planning organization minimized the importance of the productivity of land and capital in its accounting. This move away from free market mechanisms contributed in a significant measure to the decline in living standards that has been going on since then. The inefficiency arising from failure to utilize proper market and pricing procedures is revealed in part by the frequent admissions of wasteful results in Soviet discussions of accounting methods, but most of all by the fact that even the most stringent prohibition of trading by middlemen—called “speculators”—has been insufficient to prevent this illegal activity completely.

THIS brings us back to the essential usefulness of the middleman, or “speculator,” in carrying goods (even though for profit) from where they are less urgently needed to where they are more urgently needed. In fact, a closer examination shows that the “speculator” can be *more* certain of

his social usefulness than the “productive” worker.

The worker is normally engaged in turning a less useful thing, steel, into a more useful thing, an automobile. But there is no guarantee that the steel might not be needed for some other purpose even more urgently than for the automobile. The output of some alternative product, say locomotives, may be restricted below what is socially desirable even as indicated by the money demand. In a capitalist society, this may be because a monopoly does this in order to keep up the price. In a socialist society, it may be the result of bad planning. In all such cases the automobile worker plays an innocent but none the less harmful role in turning a more useful thing—steel which is needed for locomotives—into a less useful thing—automobiles. Thus the worker can never be sure that what he is doing is really useful even relative to the money demand for the products as affected by the given distribution of income and wealth.*

The trader-speculator-middleman does not suffer from this handicap. If he buys goods in one town because he can sell them at a higher price in another town, there can be no doubt that they are wanted more in the place he carries them to than in the place he fetches them from. Thus, what he does is always socially useful; if it were not, he would be unable to make any profit. This extremely high productivity and usefulness

* This is quite apart from the possibility that the worker might be participating in producing something to satisfy a rich man’s whim instead of something to satisfy some poor man’s urgent necessity. Such distortion in the use of resources is the result of inequality in income and wealth and is the exact parallel to the possibility that the middleman might be shifting resources from the poor to the rich. Just as in that case, this possibility must be balanced against the opposite possibility that the worker is engaged in producing for the poor when he might be producing for the rich. And again, like the middleman, the worker is not the one to blame for excessive inequalities of income and wealth. So long as labor and the other resources are being directed toward that product for which more money is being offered, the worker is engaged in turning less wanted goods into more wanted goods *relative to the given distribution of income and wealth*—just like the middleman.

of the middleman is attested to by his being able to survive in spite of all sorts of restrictions on his activities. The small Jewish traders, moving about from village to village or from town to town through the centuries, knew only too well how multifold and ingenious these restrictions could be. Yet they always overcame them. Indeed, according to some, it was the scorned activities of such traders in the Middle Ages that made possible the beginnings of modern capitalism and the development of modern industry and modern standards of living.

Nowhere is the special usefulness of the middleman seen more clearly than in Russia, where his activities are prohibited by law. The trader who buys screws or nails or other such small items in one Russian town and sells them in another at a profit, has to brave severe punishment for "speculation." Yet his work is probably as productive as that of any worker in Russia. Many a huge Russian factory has had to curtail its work because it could not get some small items; and for these to be obtained by the regular bureaucratic methods would take an unconscionably long time. The trader who illegally transports these small but essential items is performing a service of the highest importance in keeping the wheels of industry turning. Nevertheless, his critics claim that he is "exploiting" the workers when he makes a profit.

THE condemnation of such useful trading as "speculation" rests on a confusion between two different kinds of activity which unfortunately have been given the same name—speculation. The kind of trading discussed above may be called *competitive* speculation, to distinguish it from *monopolistic* speculation. Monopolistic speculation consists in *creating* scarcities and thus causing prices to rise to the speculator's profit. Sometimes this is done by *destroying* goods in order to sell the remainder at higher prices. But much more important even than this destruction, since it occurs more frequently and on a larger scale, is the harm done in creating scarcity simply by limiting produc-

tion. The greater part of the evil done by the monopolistic speculator thus lies not in what he takes out of the social product for himself, but in the part he destroys (mainly by preventing its production) in order to be able to take a larger share of what remains. As a result, the rest of society is doubly impoverished—first by what the monopolist takes for himself and again by the reduction in the total output.

This kind of speculation cannot be carried on by the ordinary middleman. It involves an extensive control over productive resources, for without this control it is impossible to bring about artificial scarcity and the concomitant higher prices. The competitive speculator—the middleman—has no such powers. He cannot influence prices, for he is too small in relation to the total market; on the contrary, he must accept the prevailing prices. His activity can therefore only be the moving of goods from where he finds them cheap to where he finds them dear, to the net benefit of society.

It is true, of course, that the economy could not live if everybody were a middleman and nobody engaged in direct production. But neither could the economy live if everybody became a coal miner or if everybody became a farmer.

It is also true that if there were a very good distribution of goods and services between different places and between different dates, and if this were brought about by a social authority without the use of middlemen, then there would not be much for middlemen to do. But this does not mean that middlemen should be discouraged or restricted. It only means that the authorities should try to bring about such a perfect distribution that the middlemen would be unnecessary. A perfect distribution would show itself in balanced prices throughout the economy. The middlemen would then not be able to find any places where goods were relatively plentiful and cheap or where they were relatively scarce and dear. To have such a perfect distribution of goods would of course be a good thing, quite apart from its effects in diminishing the need

for middlemen and setting them free for other useful activities. But so long as middlemen can make a living by competitive speculation, this stands as proof of an insufficiently perfect distribution, and shows that they have not been rendered unnecessary.

The fact that middlemen would not be needed if distribution were perfect is no more significant than the fact that plumbers would not be needed if pipes never leaked. In actuality our water and gas pipes are not perfect and we do suffer from leaks. Yet no one supposes that the plumbing situation would be improved by decrying the usefulness of plumbers and imposing restrictions on their activity in repairing the leaks that do occur. If we don't want plumbers and middlemen, then let us improve the quality of piping and the efficiency of goods distribution so that plumbers and middlemen will find little to do and will be available for other jobs. The man-hours needed for all sorts of operations are continually being reduced by increased efficiency and technological advances, and they would be reduced still further by the abolition of "feather-bedding" practices. The ultimate in mechanization is presumably the complete elimination of the need for work, altogether. Yet nobody has argued that this proves that workers are useless members of society.

THE question of the social role of the middleman has been complicated by a general tendency to take him as the prototype of the *middle class* and to confuse the two.

This confusion might not be thought to matter very much because traders mostly *are* members of the middle class, occupying a place somewhere in the middle of the social hierarchy. It is, nevertheless, of importance to maintain a distinction between middlemen and the middle class, because the social usefulness of each is of quite a different nature. Middlemen are useful economically while the middle class is useful politically and sociologically.

The middle class includes not only the

trader-middlemen-speculators, but also professional people, white-collar workers, highly skilled workers, and managers and specialists of various kinds—all who are neither at the top nor the bottom of the hierarchy of wealth, status, and power, but somewhere in the middle. Useful as the middleman may be in improving the efficiency of the economy, and more certain though his usefulness may be in comparison with other groups of workers, the importance of the middle class for the maintenance of a good and free society is of a much higher order.

The middleman's function is to bring together the producer and the consumer. Those who do not understand his usefulness sometimes conceive of him as *separating* producers from consumers rather than joining them together, much as one might say that the mortar in a wall separates the bricks rather than joining them to each other. Actually, of course, what makes the wall stand is the way the mortar holds the bricks together. In the same way, the middle class, lying between the people below it and the people above it, performs the vital function of joining them together.

Although I have dealt here principally with the economics of the middleman, a similar analysis of the political and social roles of the middle class would seem to show that, by providing a continuous line of possible progress from the bottom to the top, a middle class tends to diminish the contrast between the extremes.

With the growth of the middle class, those who do not have a fair share in the privileges and advantages of society may have some hope for improvement and for an enlargement of such opportunities. This hope gives them the ground for interest in the general operation of the economy and in the organization of society. Moreover, they acquire a sense of responsibility for those parts of the social order which are of general utility and are not merely means for granting privileges to chosen minorities. They have a stake in the society—they have something more than their chains to lose—and this fact is of enormous importance: it

means that their discontent can be harnessed to improve society rather than to destroy it, and that social changes are more likely to be of a kind which really benefit the great mass of the people.

A comparison of England, where there has been a strong middle class for centuries, with Germany, where the middle class was weak and had been ruined by the inflation, makes this point immediately clear. The Nazi movement was built on the mass support of those who had nothing to lose. Where everybody sees opportunities for improvement and development, for himself, for his children, and for the members of society as a whole, the existing order does not appear wholly bad. There is less likelihood of blind revolutionary action, leaving the future entirely to unexamined and mystical benefits which are supposed to

follow automatically from a complete destruction of the existing order. People are able to observe the agreement of experience with reason in showing that such blind action ultimately results in a situation worse than the one it replaces.

A strong and growing middle class assures the degree of social mobility and social responsibility that is necessary for real progress. True, the special weaknesses of the middle class played an important part in helping the demagogues of fascism and Communism to hypnotize the hopelessly dispossessed with their deceptive slogans. Yet where there is a *strong* middle class, with social mobility, social responsibility, and the resulting social cohesion, there is always a much greater chance for an even wider distribution of social benefits without the sacrifice of freedom.

CHAGALL: ON A RETROSPECTIVE EXHIBIT

ALLEN KANFER

THIS is the testimony in his hand
To Song of Songs: my bride say after me,
"Bone of my bone, flesh of my flesh," my love,
And let the fiddlers skip across the roofs
To celebrate the wedding, fiddling as
They go.

Come forth, good villagers, and stand
Before the canopy. The houses lean
A little tipsy, and the bride is in the sky,
Is on the earth, harmonics of the fiddles reach
About the corners of the houses. Cantor,
Sing arias in colors, hallel sing.
Desire is blessed, the tranquil privacy.
The bride's sweet earthly gift of self. Weave brush,
Weave color, rooster, fish and kid, the roots,
Tradition rooted in a ripened love.

ARISE, my love, my fair one, come away,
Forever love is in the master's brush,
Forever love is in the master's love.

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